RJR CONFIDENTIAL
SIS PRICE STRATEGY FEEDBACK SYSTEM
MANAGEMENT SUMMARY
1/30/96

What happens in the call?

- Retail rep observes in store pricing and discounting
  - RJR FP base (unpromoted) price for packs and cartons
  - Doral base (unpromoted) price for packs and cartons
  - Competitive base (unpromoted) price for packs and cartons
  - Competitive discount values

- Retail rep determines what discounts are appropriate to manage RJR discounting strategies
  - RJR FP NM Gap Strategy
  - Salem Matching Strategy
  - Doral Ceiling Strategy

- Retail rep works discounts according to retail rep guidelines attached

- Retail rep answers price gap special questions
  - RJR FP base (unpromoted) price for packs and cartons
  - Doral base (unpromoted) price for packs and cartons
  - Competitive base (unpromoted) price for packs and cartons
  - Competitive discount values
  - RJR discount values worked

- Retail rep later communicates with Winston-Salem mainframe computer

What happens in the computer?

- SIS captures responses to special questions

- SIS updates pricing database weekly
  - SIS holds responses until Saturday night database update

- The database contains a representative sample of SIS calls

- The sample of calls is reselected at the beginning of each Quarter
  - Eliminates calls that have closed, changed classes of trade, changed hands, etc
  - Adds new calls
  - Ensures that the sample reflects a dynamically changing store universe

- The database reflects the full sample of calls at any given point in time
  - Shows the price, discount, strategy as of the last time rep made the call
  - Some data will be one, two, three, or four weeks old, depending on when call was last made
  - Information for the call is updated the next time rep makes the call
  - If a store stops being called on for any reason,
    -- Its information stays in the database, unchanged, until the next sample update

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SIS PRICE STRATEGY FEEDBACK SYSTEM
MANAGEMENT SUMMARY - Continued

What reports are available?

- MRS provides reports on pricing/discounting activity (PM exclusive calls are included)
  - Executive Summary
    -- Total stores
    -- Grid stores only
  - Weekly Trended Report
  - Monthly Trended Report
  - Region Summary
  - Discount Value Summary

- MRS is adding reports to account for PM exclusive calls (scheduled for mid February)
  - Grid stores excluding PM exclusive calls (where our programs are executed)
  - PM exclusive calls only (to monitor any RJR activity occurring in those calls)

- SIS provides tactical reports

But do the reports always reflect our execution fairly???

Yes and no... Most of the time the reports fairly reflect our execution. However, there are exceptions to the core parts of the strategy and special cases that cannot be taken into account in the reports without adding an unacceptable number of special questions in the Poqets. Therefore, there are cases where you may execute exactly what the guidelines indicate in a call, but it shows up in the reports as off strategy. Those exceptions are described in the following.

The system has the ability to know whether we are on or off strategy in PM exclusive calls that have been identified and integrated into the feedback system. The system knows what calls are PM exclusive from lists previously provided by the field through your RBM's. The current list is primarily chains and does not cover all independents. Independents will be included when the field identifies all PM exclusive calls in the merchandising table. If you have questions about PM exclusive calls, contact your RBM.

- If RJR promotes in an identified PM exclusive call, then it is counted as too aggressive
  - Regardless of the presence of competitive triggers

- If RJR does not promote in an identified PM exclusive call, then it is counted as on strategy
  - Regardless of the presence of competitive triggers

However, for PM exclusive independents that are not identified in the feedback system, and any previously identified PM exclusive chains that may have changed, they will show up as less aggressive if competitors are promoting there.

- If we do not respond to a competitive trigger in a call because it is PM exclusive, but our feedback system does not have that call identified as PM exclusive, then that call will be counted as less aggressive.

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More Aggressive

- Defense of Partners Accounts is not taken into account in the feedback system
  - If we discount in a partner account where there is no competitive trigger, but we are discounting in nearby accounts that the partner competes with, then that account will show up as more aggressive.
  - If we discount in a partner account where there is no competitive trigger, but we are discounting to protect the account from a nearby PM exclusive account, then that account will show up as more aggressive.

- Co-Marketing or Accrual fund discounts are not taken into account in the feedback system
  - If there is no competitive trigger present in the store and we work a discount, that account will show up as more aggressive.

- Marlboro B4G1F is not taken into account in the feedback system
  - If we discount in response to the Marlboro B4G1F, and there is no competitive branded savings activity, then that account will show up as more aggressive.

- Salem Lights reaction to Marlboro Menthol is not taken into account in the feedback system
  - If Kool or Newport have no discounts present and Salem reacts to the Marlboro Menthol discount, then that account will show up as more aggressive.

The important thing is for you to execute according to the guidelines as well as you can, and understand where and why this may cause you to be off strategy.

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